



Diversified Equity-Income Strategy

Strategy Facts

Market Sector Diversification

10 Global Sectors

Underlying Securities

Approximately 4,000

ETF Expense Ratio

Minimum 0.12%

Maximum 0.63%

Average* 0.42%

Availability

Separate Account (SMA) Yes

Mutual Fund No

Model Portfolio Turnover

3-Year Average Turnover 85%

*Simple average of the 10 ETFs in the strategy.

Portfolio Construction

The Diversified Equity-Income Strategy

systematically adjusts its asset allocation among 10 global market sectors on a quarterly basis. The sectors cover each of the market capitalization slices for domestic equities, international stocks, natural resources, real estate and high-yield bonds. The strategy invests in exchange traded funds, or "ETFs" that track an appropriate index for each of these 10 sectors. The majority of the index funds utilized in the strategy incorporate a fundamental weighting methodology that emphasizes dividend-paying stocks, which produces a higher average yield for these indexes relative to traditional, capitalization-weighted indexes. At the end of every quarter we measure the relative price strength of these 10 sectors. Three sectors that show the greatest relative strength will be over-weighted for the subsequent quarterly holding period, while three sectors showing relative weakness are under-weighted for the subsequent quarterly period. Four of the 10 sectors in the strategy carry a neutral weighting each quarter. The **Diversified Equity-Income Strategy** remains fully invested in the equity asset class in aggregate at all times. Unlike more traditional investment processes that periodically re-balance to static asset allocation targets, the **Diversified Equity-Income Strategy** changes its sector targets as conditions in the global equity markets change over time.

Objective & Strategy

Capital Advisors' **Diversified Equity-Income Strategy** seeks a combination of growth and income in the global equity markets by investing in fundamentally-weighted index funds that emphasize dividend-paying stocks. The strategy uses an objective marker for relative price strength to direct asset allocation changes among 10 broad sectors of the global equity markets. The strategy seeks to optimize its exposure to global equities by systematically over-weighting positions in market sectors that demonstrate relative price strength while reducing exposure to sectors demonstrating relative price weakness. The objective of the strategy is to keep more money invested in asset sectors when they are performing well on a relative basis, and less money in sectors when they are performing poorly, over successive market cycles of three-to-five years.

Investment Approach

Wealthy individuals and institutional investors have ready access to informed opinions about the asset markets. Capital Advisors strives to provide something different for its clients by measuring statistical tendencies in the markets with purely objective data. We track conditional probabilities associated with relative strength, moving averages, credit spreads and valuation to determine when asset markets are statistically most likely to perform well, and when they are not. We do this by measuring correlations between pre-conditions and post-conditions in the asset markets over long periods of time.

For example, over the past 138 years we know that the average monthly return for the U.S. stock market has been materially higher, and the frequency of losing money has been materially lower, in months following a positive moving average measurement for the market index compared to months following a negative reading. Armed with this knowledge we may choose to invest differently when the market index is trading above its monthly moving average compared to periods when it is not.

Each of the asset allocation models we offer at Capital Advisors, including the **Diversified Equity-Income Strategy**, incorporates this kind of logic into its investment process. The strategies are designed to systemically increase exposure to asset sectors that demonstrate favorable conditional probabilities, while decreasing exposure to sectors that do not.

Asset Allocation History

Over/Under-Weighted Sectors By Quarter

	4Q2010	Q1 2011	Q2 2011	Current Qtr.
Overweight	Emerging Mkts.	Small Cap	Small Cap	Small Cap
Overweight	Mid Cap	Mid Cap	Mid Cap	Mid Cap
Overweight	Real Estate	Real Estate	Real Estate	Real Estate
Underweight	International	International	International	Large Value
Underweight	Japan	Japan	Japan	Japan
Underweight	Large Value	H-Y Bonds	H-Y Bonds	H-Y Bonds

The table above shows the over-weighted and under-weighted sectors as indicated by the model portfolio of the **Diversified Equity-Income Strategy** during each of the most recent four quarters. The model portfolio has been maintained by Capital Advisors in real time since the third quarter of 2007 on a portfolio accounting system from Checkfree APL.



Diversified Equity-Income Strategy

About Capital Advisors

Capital Advisors was founded in 1978 and is headquartered in Tulsa, Oklahoma. As of June 30, 2011, we managed and advised on \$919 million in assets for high net worth individuals and mid-sized institutional investors.

Keith C. Goddard, CFA

President/CEO

Keith Goddard oversees investment strategies at Capital Advisors and has been President since 2003. He joined Capital Advisors in 1991 after graduating from the University of Colorado, Boulder with a B.A. in Journalism. He earned the Chartered Financial Analyst (CFA) designation in 1995.

Channing S. Smith, CFA

Managing Director

Channing Smith is director of equity strategies at Capital Advisors. He joined the firm in 2004 after earning his M.B.A. with a focus in Finance and Accounting from Southern Methodist University. He graduated with a B.S. in Entrepreneurship from Indiana University in 1998.

More Information

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Investment Universe

Large-Cap Growth	iShares Russell 1000 Growth ETF (IWF)
Large-Cap Value	WisdomTree Large Cap Dividend ETF (DLN)
Domestic Mid-Cap	WisdomTree Mid Cap Dividend ETF (DON)
Domestic Small-Cap	WisdomTree Small Cap Dividend ETF (DES)
International	WisdomTree DEFA Equity Income ETF (DTH)
Emerging Markets	WisdomTree Emerging Mkts. Equity Income ETF (DEM)
Japan	WisdomTree Japan Total Dividend ETF (DXJ)
Natural Resources	iShares N. Amer. Natural Resources ETF (IGE)
Real Estate	Vanguard REIT Index ETF (VNQ)
High-Yield Bonds	iShares iBoxx High-Yield Corp. Bond ETF (HYG)

Gross Portfolio Yield*

Date	Sept. 30, 2010	Dec. 31, 2010	March 31, 2011	June 30, 2011
Yield	3.19%	3.29%	2.83%	2.86%

*Gross Portfolio Yield represents the 12-month run rate of dividends from the portfolio model divided by the market value of the portfolio as of each quarter-end. This measure is calculated by a portfolio accounting system from CheckFree APL.

These strategies are Model Portfolios (Portfolios) and do not reflect the actual investment results of any individual client participating in a Capital Advisors managed portfolio, but rather represent the hypothetical performance as initially established and as adjusted on monthly or quarterly basis.

Due to differences in portfolio timing and position weightings, the returns for any individual portfolio managed by Capital Advisors, Inc. may be lower or higher than the actual performance quoted. Prior performance is no guarantee of future results.

Risk Considerations

The risk management process incorporated into the **Diversified Equity-Income Strategy** is not optimal for all market conditions. The natural volatility of asset markets should be expected to trigger false signals from the relative strength markers that direct asset allocation changes for the strategy such that some of the purchase and sale transactions in the strategy may turn out to be poorly timed in hindsight. Investors considering the **Diversified Equity-Income Strategy** for a taxable portfolio should expect more frequent taxable gains and losses relative to more static buy-and-hold investment strategies.

The information presented for the Diversified Equity-Income portfolio represents back-tested results based on combined simulated index data and live (or actual) Exchange Traded Funds (ETF's) results from January 1989 to the period ending date shown using the strategy of buying, holding and quarterly rebalancing ETF portfolios. An ETF is an investment company that typically has an investment objective of striving to achieve a similar return as a particular market index. The ETF will invest in either all, or a representative sample of the securities included in the index it is seeking to imitate. Like closed-end funds, ETFs can be traded on a secondary market and thus have a market price that may be higher or lower than its net asset value (NAV). If these shares trade at a price above their NAV they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

Back-tested portfolios are hypothetical (it does not reflect trading in actual accounts) and is provided for informational purposes to indicate historical performance had the index portfolios been available over the relevant period. Capital did not offer this strategy until May 2007.

Back-tested results do not represent actual performance and should not be interpreted as an indication of such performance. Actual performance for client accounts may be materially lower than that of the ETF portfolios.

Back-tested results have certain inherent limitations. Such results do not represent the impact that material economic and market factors might have on an investment adviser's decision-making process if the adviser were actually managing client money. Back-tested performance also differs from actual performance because it is achieved through the retroactive application of model portfolios designed with the benefit of hindsight. As a result, the models theoretically may be changed from time to time to obtain more favorable performance results.

Back-tested performance results assume the reinvestment of dividends and capital gains and quarterly rebalancing. In reality, client's accounts will be rebalanced either more or less frequently depending on the fluctuation of the asset classes and the cash flow activity of the client. It is Capital's opinion that the assumption of quarterly rebalancing is a reasonable approximation to reality.

Past performance is not a guarantee of future results. Additional information, including management fees and expenses, is provided on Capital's Form ADV Part II. Presentation is prepared by Capital Advisors, Inc. © 2011 by Capital Advisors, Inc. All rights reserved.